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NOTES AND MEMORANDA

FIVE MILL TAX ON MONEYS AND CREDITS IN IOWA

THE Thirty-Fourth General Assembly of Iowa in April, 1911, passed an act abolishing the general property tax as applied to moneys and credits, and providing in lieu thereof a flat rate of five mills on the dollar of actual valuation, such tax to be apportioned on the same pro rata basis as other taxes collected in a given taxing district. The basic provision of the present law relating to the taxation of moneys and credits is as follows:

Moneys, credits and corporation shares or stocks, except as otherwise provided, cash, circulating notes of national banking associations, and United States legal tender notes, and other notes, and certificates of the United States payable on demand, and circulating or intended to circulate as currency, notes including those secured by mortgage, accounts, contracts for cash or labor, bills of exchange, judgments, choses in action, liens of any kind, securities, debentures, bonds other than those of the United States, annuities, and corporation shares or stocks not otherwise taxed in kind, shall be assessed, and, excepting shares of stock of national, state and savings banks and loan and trust companies, and moneyed capital as hereinafter defined, shall be taxed upon the uniform basis throughout the state of five mills on the dollar of actual valuation, same to be assessed and collected where the owner resides. The millage tax here provided for shall be in lieu of all other taxes upon moneys and credits and shall be levied by the board of supervisors, placed upon the tax list and collected by the county treasurer, and the amount collected in the various taxing districts of the state shall be divided between the various funds upon the same pro rata basis as other taxes collected in such taxing district are apportioned.¹

Before presenting a statistical tabulation of the relative amount of moneys and credits listed for taxation under the old and new systems, it is essential that the reader have

¹ Supplement, Code of Iowa, 1913, section 1310.

clearly in mind: first, the exact meaning of the law itself, which can be understood only after making a critical study of the revenue code as a whole; and second, the real nature of fiscal administration in Iowa, which is so decentralized, cumbersome and inefficient as to render the successful operation of the flat rate system or any other tax law almost an impossibility. Moreover, a fairly definite knowledge of certain local conditions is also necessary if one is to present with any degree of scientific accuracy the subject under consideration.

In the absence of a careful study of these facts and conditions, the writer is of the opinion that the working of the five mill tax on moneys and credits has been somewhat misunderstood even by able students of taxation. At any rate questions asked and criticisms made at meetings of the National Tax Association would seem to indicate the desirability of presenting a brief review of the experience which Iowa has had with the flat rate system.

First of all it will be observed that moneys and credits include "corporation shares or stocks, except as otherwise provided." In fact the term credit as defined in the code has been construed by the courts to include shares of corporate stock.¹ One might quite naturally infer from these facts that shares of corporate stock formed a dignified fractional part of the amount of moneys and credits listed for taxation in Iowa.

A study of the revenue code, however, shows that the capital stock of telephone and telegraph companies, freight line and equipment companies, express companies, corporations engaged in merchandising and domestic corporations engaged in manufacturing is specifically exempted from taxation. Moreover, the "shares of stock of any corporation organized under the laws of this state, except those which are not organized for pecuniary profit, and except corporations otherwise provided for"² are listed at their real value after deducting the amount of capital actually invested in real

¹ Code of Iowa, 1897, section 1309; *First National Bank v. City Council of Albia, 85 Iowa 736.*

² Code of Iowa, 1897, section 1323.

estate, and taxed on the same basis as general property. Finally the capital stock of national, state, and savings banks, loan and trust companies, and moneyed capital in competition with banks, is listed at 80 per cent of its actual value and taxed on the same basis as general property in the same taxing district.¹

Thus it appears that the capital stock of corporations in Iowa is for the most part exempt from taxation or is "otherwise provided" for by law, and is therefore not listed as moneys and credits for purposes of taxation. Indeed the only corporate stock not otherwise provided for is that held in foreign corporations, and the revenue code also stipulates that shares of stock in building and loan associations shall be classified as moneys and credits.² As the amount of stock in foreign corporations and building and loan associations listed for taxation as moneys and credits and therefore subject to the five mill tax is almost a negligible quantity, the importance of the phrase "otherwise provided" must be apparent.

In the second place the laws of Iowa provide that, in listing the amount of moneys and credits for taxation at the flat rate of five mills, the taxpayer may deduct from the "actual value thereof" the "gross amount of all debts in good faith owing by him." The language of the revenue code is as follows:

In making up the amount of money or credits which any person is required to list, or to have listed or assessed, including actual value of any building and loan shares, he will be entitled to deduct from the actual value thereof the gross amount of all debts in good faith owing by him, but no acknowledgment of indebtedness not founded on actual consideration, and no such acknowledgment made for the purpose of being so deducted, shall be considered a debt within the intent of this section, and so much only of any liability of such person as security for another shall be deducted as he believes he will be compelled to pay on account of the inability of the principal debtor, and if there are other sureties able to contribute, then so much only as he in whose name the list is made will be bound to contribute; but no person will be entitled to any deduction on account of any deposit or security note given in aid of the organization of a mutual insurance company for the premiums of insurance, nor on account of any

¹ Laws of Iowa, 1911, p. 45.

² Code of Iowa, 1897, section 1920.

unpaid subscription to any institution, society, corporation or company; and no person shall be entitled to any deduction on account of any indebtedness contracted for the purchase of United States bonds or other non-taxable property.¹

It has been assumed by some that this important section of the Iowa revenue code was repealed by the law of 1911, which provided a flat rate of five mills in lieu of the old personal property tax on moneys and credits. The truth is that under the old law bank stock and moneyed capital in competition with banks was frequently classified as moneys and credits, thus enjoying the privilege of deducting just debts within the limitations outlined by section 1311 of the code; whereas, under the flat rate law, bank stock (including moneyed capital in competition with banks) was placed in a separate class from two standpoints: first, being listed at 80 per cent of the actual value rather than the actual value thereof; and second, in being denied the right of deducting debts.²

Needless to say the right to deduct debts from the actual value of moneys and credits, a right which still exists under the flat rate system, would very materially reduce the amount of this class of property listed for taxation even with the most efficient plan of administration. In Iowa where a pioneer system of administration still prevails, this provision of law opens the door to an almost endless evasion of any form of taxation on moneys and credits. No judgment regarding the experience of this state with the flat rate tax can be considered scientific which fails to take due and proper account of the fact that all just debts may be deducted from the actual value of moneys and credits listed for taxation.

The third point to be considered along this line is the fact that another provision of the Iowa revenue code gives the county treasurer power to list omitted property and collect back taxes for a period of five years "together with 6 per cent interest thereon from the time the taxes would have become due and payable, had such property been listed and assessed."³ Definite provision is also made for the enforce-

¹ Code of Iowa, 1897, section 1311.

² Laws of Iowa, 1911, p. 45.

³ Code of Iowa, 1897, section 1374.

ment of this law by action in the court, and in case property has been "fraudulently withheld from assessment" a penalty of 50 per cent is added to the amount due.

Many taxpayers have feared the collection of heavy back taxes with accumulated interest in case they disclosed large amounts of moneys and credits under the flat rate law which had been concealed prior to 1911. When we consider that until the present year, 1916, a part of these back taxes would have been collected on the basis of the general property tax rather than the flat rate system, the ground of this fear becomes apparent. From the present date, of course, all back taxes collected under section 1374 of the Code of 1897 will be at the rate of five mills on the dollar of actual valuation and not at the local rate in a given taxing district.

Finally, it should be observed that, while the so-called tax ferret law was repealed in 1911,¹ many contracts were in force until 1912, and honest taxpayers felt that to list large amounts of moneys and credits heretofore concealed would simply mean a rich harvest for several firms of tax ferrets. To what extent fears of this character were justified the writer does not pretend to judge. This general subject, however, has been discussed with leading citizens from all parts of the state, and was considered by the Iowa Special Tax Commission in a number of its meetings. On the basis of direct information thus obtained at first hand, it can be safely stated that in presenting this phase of the problem, we are dealing with a factor of real importance in preventing a full and complete listing of moneys and credits. On this point there was no difference of opinion among the five members of the Special Tax Commission which made its report in 1912.

Closely related to the above considerations is the additional fact that, since the flat rate law was passed in 1911, there has been a constant effort made, especially in the rural districts, to bring about its repeal. This was true in the General Assembly of 1913 and again in 1915. Even at the present time a so-called State Tax League has been formed having a dual purpose: first, lower taxation by preventing

¹ Laws of Iowa, 1911, p. 48.

alleged waste in public expenditure; and second, a more or less determined opposition to the five mill tax on moneys and credits. In my judgment, the law is still in an experimental stage.

With so-called county tax leagues springing up in different sections of the state modeled after the larger organization, the writer anticipates a more serious opposition in the General Assembly of 1917 than was the case in either 1913 or 1915. While the law in all probability will not be repealed, the fact remains that the persistence of this agitation has been a strong factor in preventing a complete listing of moneys and credits. Indeed, the writer has talked with many conservative well informed citizens who believe that it is the most important factor in the problem under consideration.

Finally the existence of a pioneer system of tax administration, which in its main outlines is more than half a century old, and with only minor changes can be found in the Iowa Code of 1873, makes success impossible for any part of the revenue system that requires in its practical operation the exercise of discretion and judgment on the part of tax officials. A radical and complete change in the general plan of tax administration in Iowa is both desirable and necessary if success is desired for the flat rate law or any other part of our revenue system. To condemn the five mill tax because the listing of moneys and credits has not come up to the expectations justified by the experience of Maryland, Rhode Island, and other states is to confuse cause and effect.

The real criticism should be directed against the antiquated and cumbersome system of tax administration in Iowa, which has been briefly described as follows:

At the basis of the fiscal pyramid, we have the work of more than two thousand local assessors and the correction of individual assessments by local review boards composed of more than six thousand officials. Add to this long list the county boards of supervisors, county treasurers and auditors, and the State Executive Council, and we have an army of assessment and taxation officials composed of about ten thousand men without any central supervision or control either in the county or state.¹

¹ Iowa Special Tax Commission, 1912, p. 24.

Space does not permit a critical analysis of the whole system of fiscal administration, which in its present form is in my judgment the most important factor, if not more important than the other factors combined, in determining the success or failure of the flat rate tax.¹ Bearing these essential facts in mind the Special Tax Commission, in redrafting the revenue code, made definite provision for a more efficient administration of the flat rate law. The general plan of state and county supervision of local assessment carefully worked out in the revenue bill² would have greatly increased the efficiency of the whole revenue system of Iowa had it been adopted by the General Assembly. At any rate the experience of more than half the states in the Union confirms this statement.

With the facts and conditions above outlined before him, the reader is in a position to understand the listing of moneys and credits, corporation stock, bank stock, and other moneyed capital as set forth in the following table.

IOWA ASSESSMENT

Year	Actual Value of Moneys and Credits	Actual Value of Corporation Stock	80% of Actual Value of Bank Stock and Other Moneyed Capital.
1906	\$152,599,090	\$32,952,263
1907	160,855,167	31,836,762
1908	176,292,838	35,735,536
1908	184,359,222	34,445,024
1910	194,198,620	35,019,729
1911	170,131,195	\$56,974,484
1912	188,773,772	4,702,325	62,887,044
1913	207,233,866	5,829,609	59,956,973
1914	250,218,178	5,845,207	63,301,915
1915	275,361,750	5,507,454	69,212,104

Prior to 1911 bank stock and other moneyed capital in competition with banks was classed as moneys and credits in many taxing districts, which explains the apparent decrease in the listing of moneys and credits for the year 1911. In other taxing districts, however, bank stock was listed as corporation stock under the old system. Whether there was

¹ See Brindley's *History of Taxation in Iowa*, vol. ii, chap. xxiii.

² Iowa Special Tax Commission, 1912, pp. 83-137.

a small increase or decrease in the listing of moneys and credits in 1911 cannot, therefore, be accurately determined. At any rate the amount for all practical purposes was about stationary. Since 1911, however, there has been a slow but constant increase, from \$188,773,772 in 1912 to \$250,218,178 in 1914 and \$275,361,750 in 1915.

For reasons already outlined, the amount of corporate stock listed as moneys and credits is almost a negligible quantity. The small sum of \$5,507,454 separately listed as corporation stock, the same not being "otherwise provided" for, is also instructive. To locate and place corporation stock, especially shares of stock held in foreign corporations, on the assessment roll, requires a modern system of administration, not a plan of assessment and equalization worked out during the period 1853-1873.

In conclusion, it may be safely alleged that the statistics presented, when judged with reference to actual facts and conditions, do not represent a criticism of the underlying principles of the flat rate tax. In my judgment, the rate should be reduced to three mills and the provision granting a deduction of debts from the actual value of moneys and credits repealed. With these changes made and an up-to-date plan of fiscal administration introduced, more revenue would no doubt be secured and in other respects better results attained.

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DOES CONSERVATION INVOLVE COST?

It is almost universally agreed that a very large degree of conservation of natural resources would be desirable were it not for the burden which it is assumed must be placed upon the present in order to benefit the future. The usual line of argument is, in substance, as follows. If we set aside forest reserves today, it makes lumber dear. If we insist that in